

Answer **all** questions.

- 1 Tanya is a sole proprietor who buys and sells musical instruments. The cash at bank account for Tanya's business for the month of March 2022 is as follows.

Cash at bank account					
Date	Particulars	Cheque No.	Debit	Credit	Balance
2022			\$	\$	\$
Mar 1	Balance b/d				1 800 Dr
3	Kelly	172253		930	870 Dr
	Drawings	172254		180	690 Dr
8	Sales revenue		700		1 390 Dr
12	Inventory	172255		1 900	510 Cr
16	JJ Trading		1 200		690 Dr
21	Stephanie	172256		800	110 Cr
25	Office equipment	172257		1 000	1 110 Cr
29	Sales revenue		320		790 Cr
31	Kit		2 400		1 610 Dr

Tanya received the following bank statement for the month of March 2022.

Bank Statement				
Date	Details	Withdrawal	Deposit	Balance
2022		\$	\$	\$
Mar 1	Balance b/d			2 300 Cr
2	Cheque no. 172250	500		1 800 Cr
5	Cheque no. 172254	180		1 620 Cr
8	Credit transfer – Olivia		460	2 080 Cr
12	Deposit		700	2 780 Cr
15	Cheque no. 172255	1 900		880 Cr
18	Deposit		1 200	2 080 Cr
	Cheque no. 172253	930		1 150 Cr
20	Returned cheque	1 200		50 Dr
26	Direct payment – Insurance	300		350 Dr
31	Bank charges	20		370 Dr

REQUIRED

(a) Update Tanya's cash at bank account for the month of March 2022.

[3]

Cash at bank account				
2022		Dr (\$)	Cr (\$)	Balance (\$)
Mar 31	Balance b/d			1 610 Dr
	Trade receivable – Olivia	✓ 460		
	Trade receivable – JJ Trading		✓ 1 200	
	Insurance expense		✓ 300	
	Bank charges		✓ 20	550 Dr
Apr 1	Balance b/d			✓✓ 550 Dr

(b) Prepare the bank reconciliation statement at 31 March 2022.

[4]

Tanya**Bank Reconciliation Statement as at 31 March 2022 ✓**

	\$	\$
Balance as per bank statement		✓ (370)
<u>Add: Deposits in transit</u> * (✓ both * correct)		
Sales revenue	✓ 320	
Kit	✓ 2 400	2 720
		2 350
<u>Less: Cheques not yet presented</u> *		
Stephanie (cheque no. 172256)	✓ (800)	
Office equipment (cheque no. 172257)	✓ (1 000)	(1 800)
Adjusted balance as per cash at bank account		✓ 550

- (c) State the effect of the bank reconciliation adjustments on Tanya's profit for the month ended 31 March 2022. [1]

Profit will decrease by \$320 ✓✓

- (d) Other than bank reconciliation, state **two** ways of internal control a business may use to safeguard cash balances. [1]

Any two of the following (✓ each):

Segregation of duties / Custody of cash / Authorisation

- (e) Give **one** possible reason why Tanya chose to operate her business as a sole proprietorship. [1]

Tanya wants to have full control over the business. ✓✓

Or any other reasonable answers based on features of sole proprietorship

[Total: 10]

- 2 The following balances were extracted from Pokemon Trader's books on 1 January 2021.

	\$
4% Bank loan	300 000
Rental income receivable	1 750

The 4% bank loan was obtained on 1 October 2020 to purchase a warehouse. The loan is to be paid equally over 10 years. The partial principal sum repayment and interest payment are to be made on 30 September each year.

Part of the warehouse was then leased out to a tenant at \$3 500 per month. During the year ended 31 December 2021, Pokemon Trader received cheques amounting to \$54 250 from the tenant.

REQUIRED

- (a) Calculate the interest expense incurred for the year ended 31 December 2021. [2]

$(4\% \times 300\,000 \times 9/12) + [4\% \times (300\,000 - (300\,000/10)) \times 3/12]$ ✓✓

= \$11 700 ✓✓

- (b) Calculate the amount of interest expense payable at 31 December 2021. [1]

$$4\% \times [300\,000 - (300\,000/10)] \times 3/12 \checkmark$$

$$= \$2\,700 \checkmark$$

- (c) Prepare the bank loan account for the **two** years ended 31 December 2020 and 2021. [2]

Bank loan account				
2020		Dr (\$)	Cr (\$)	Balance (\$)
Oct 1	Property / Cash at bank		\checkmark 300 000	300 000 Cr
2021				
Jan 1	Balance b/d			\checkmark 300 000 Cr
Sep 30	Cash at bank (300 000 / 10)	\checkmark 30 000		270 000 Cr
2022				
Jan 1	Balance b/d			\checkmark 270 000 Cr Cr

- (d) Prepare an extract of Pokemon Trader's statement of financial position as at 31 December 2021, showing the liabilities section only. [3]

Pokemon Trader *

Statement of Financial Position as at 31 December 2021 (extract) *	
	\$
Non-current liabilities *	
Long-term borrowings \checkmark (270 000 – 30 000)	\checkmark 240 000
Current liabilities * (\checkmark all * correct)	
Current portion of long-term borrowings \checkmark (300 000 / 10)	\checkmark 30 000

Interest expense payable	✓ 2 700
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- (e) Prepare journal entries to account for Pokemon Trader's rental income for the year ended 31 December 2021 including the closing entry. Narrations are not required. [5]

Journal			
2021		Dr (\$)	Cr (\$)
Jan 1	Rental income	✓ 1 750	
	Rental income receivable		✓ 1 750
Dec 31	Cash at bank	✓ 54 250	
	Rental income		✓ 54 250
31	Rental income (- 1 750 + 54 250 – 42 000) ✓	✓ 10 500	
	Rental income received in advance		✓ 10 500
31	Rental income (3 500 x 12) ✓	✓ 42 000	
	Income summary		✓ 42 000

- (f) State **two** accounting theories applied by Pokemon Trader when recording its rental income. [1]

Revenue recognition theory ✓

Accrual basis of accounting ✓

[Total: 14]

- 3 Donki Snacks provided the following ledger account for the year ended 31 May 2022.

Trade receivable – Donpen account			
2021		Debit (\$)	Credit (\$) Balance (\$)
Jun 1	Balance b/d		2 800 Dr
Jul 15	Cash in hand		450 2 350 Dr
Aug 24	Sales revenue	5 700	8 050 Dr
Aug 27	Cash at bank		6 200 1 850 Dr
	Discount allowed		300 1 550 Dr
Aug 31	Cash at bank	6 200	7 750 Dr
	Discount allowed	300	8 050 Dr
2022			
May 31	Cash at bank		1 800 6 250 Dr
	Allowance for impairment of trade receivables		6 250 --

REQUIRED

- (a) Interpret the entries in the trade receivable – Donpen account on: [5]

(i) 1 June 2021: Amount owed by credit customer Donpen to Donki Snacks was \$2 800. ✓✓

(ii) 15 July 2021: Received \$450 cash from credit customer Donpen. ✓✓

(iii) 24 August 2021: Sold goods to Donpen for \$5 700 on credit. ✓✓

(iv) 31 August 2021: Cheque of \$6 200 received from Donpen on 27 August was dishonoured ✓ and cash discount of \$300 was withdrawn. ✓

(v) 31 May 2022: Received cheque of \$1 800 from credit customer

Donpen ✓ and wrote off \$6 250 owed by Donpen.

✓

- (b) Explain the purpose of the discount allowed on 27 August 2021. [1]

To encourage credit customers to pay early. ✓✓

- (c) State the effect of the transaction on 31 May 2022 on Donki Snacks' profit for the year. [1]

No effect ✓✓

- (d) Using relevant accounting theories, explain the need for businesses to maintain an allowance for impairment of trade receivables. [3]

According to the matching theory ✓, expenses incurred (impairment loss on trade receivables) must be matched against the income earned (credit sales) in the same accounting period to determine the profit for that period. ✓✓

According to the prudence theory ✓, expected losses due to a fall in value of assets should be recorded to avoid understating expenses and to enable a more realistic trade receivables balance to be reported in the Statement of Financial Position to avoid overstating assets. ✓✓

[Total: 10]

- 4 Cat Mountain King is a durian trader. In the month of June 2022, he had the following purchases and sales:

Date	Purchases
Jun 3	300 durians for \$1 500
11	400 durians for \$2 100
16	200 durians for \$900
20	200 durians for \$1 300
26	500 durians for \$2 800
29	300 durians for \$1 700

Date	Sales
Jun 4	350 durians for \$4 100
13	700 durians for \$7 300
20	200 durians for \$1 950
28	700 durians for \$7 800

Cat Mountain King uses the First-In-First-Out (FIFO) method to account for his inventory.

On 1 June 2022, his inventory account had a balance of 350 durians costing \$1 820.

REQUIRED

- (a) Calculate the cost of sales for the month of June 2022. [2]

$1\ 820 + 1\ 500 + 2\ 100 + 900 + 1\ 300 + 2\ 800$ ✓✓

$= \$10\ 420$ ✓✓

- (b) State the value of the inventory on 30 June 2022. [1]

$\$1\ 700$ ✓✓

- (c) State how Cat Mountain King should value its ending inventory. [1]

Ending inventory should be valued at lower of cost and net realisable value. ✓✓

(d) State the source documents used in each of the following transactions: [2]

(i) Credit purchases: **Invoice** ✓

(ii) Cash purchases: **Payment voucher / Receipt** ✓

(iii) Cash sales: **Receipt** ✓

(iv) Sales returns: **Credit note** ✓

[Total: 6]

END OF PAPER